

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

FERNDALÉ HOUSING COMMISSION

Financial Statements

December 31, 2003

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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John C. DiPiero, P.C.

Certified Public Accountant

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Hemlock, Michigan 48626
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Board of Commissioners
Ferndale Housing Commission
415 Withington
Ferndale, Michigan 48220

Independent Auditor's Report

I have audited the financial statements listed in the Table of Contents of the Ferndale Housing Commission as of and for the year ended December 31, 2003. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ferndale Housing Commission as of December 31, 2003, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principals.

In accordance with Government Auditing Standards, I have also issued my report dated June 25, 2004 on my consideration of the Ferndale Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Certified Public Accountant

June 25, 2004

FERNDALÉ HOUSING COMMISSION
Combined Balance Sheet
December 31, 2003

ASSETS

C-3089

CURRENT ASSETS

Cash	\$	353,250
Accounts Receivable (Net)		1,431
Accounts Receivable- HUD		22,947
Investments		170,684
Prepaid Expenses		11,929
Inter Program due from		<u>170,673</u>

Total Current Assets	\$	730,914
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NON CURRENT ASSETS

Land	\$	823,793
Buildings		5,684,153
Furniture, Equipment- Dwellings		38,212
Furniture, Equipment- Administrative		187,612
Leasehold Improvements		2,833,040
Accumulated Depreciation		<u>(3,345,406)</u>

Total Non Current Assets		<u>6,221,404</u>
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<u>TOTAL ASSETS</u>	\$	<u>6,952,318</u>
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FERNDAL HOUSING COMMISSION
Combined Balance Sheet
December 31, 2003

LIABILITIES & EQUITY

C-3089

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$ 101,406
Accrued Liabilities	21,011
Accrued Compensated Absences	10,692
Account Payable- HUD	17,146
Account Payable- Other Government	23,909
Tenants Security Deposit	31,955
Deferred Revenue	3,094
Other Current Liabilities	15,502
Inter-Program due to	<u>170,673</u>

Total Current Liabilities \$ 395,388

NON CURRENT LIABILITIES

Accrued Compensated Absences 32,074

Total Liabilities \$ 427,462

EQUITY:

Contributed Capital	\$ 5,525,928
Undesignated Fund Balance	<u>998,928</u>

Total Equity 6,524,856

TOTAL LIABILITIES & EQUITY \$ 6,952,318

The footnotes are an integral part of the Financial Statements.

FERNDALE HOUSING COMMISSION
Combined Statement of Income and Expenses
For the year ended December 31, 2003

REVENUE

Tenant Rental Revenue	\$ 397,536	
Other Tenant Revenue	2,954	
HUD Grants	1,432,669	
Interest Income	2,778	
Other Income	<u>10,743</u>	
 <u>Total Revenue</u>		 \$ 1,846,680

EXPENSES

Administrative	\$ 350,381	
Tenant Services	17,562	
Utility Expenses	118,859	
Ordinary Maintenance	287,674	
General Expenses	<u>80,688</u>	
 <u>Total Expenses</u>		 <u>861,680</u>
 <u>Excess (Deficiency) of Revenues over Expenses</u>		 \$ 985,000

OTHER DEDUCTIONS

Extraordinary Maintenance & Casualty Losses	\$ 4,900	
Casualty Losses	5,305	
Housing Assistance Payments	959,453	
Depreciation Expenses	<u>302,259</u>	
 <u>Total Other Deductions</u>		 <u>1,271,917</u>
 <u>NET PROFIT (LOSS)</u>		 \$ <u>(286,917)</u>

The footnotes are an integral part of the financial Statements.

FERNDALE HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended December 31, 2003

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 397,005
Payments to Suppliers	(1,446,871)
Payments to Employees	(281,561)
HUD Grants	1,432,669
Other Receipts (Payments)	<u>13,521</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>114,763</u>

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ (171,585)
Increase in Investments	<u>(146,190)</u>
Net Cash Provided (Used) from Financing Activities	\$ <u>(317,775)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (203,012)
Balance- Beginning of Year	<u>556,262</u>
Balance- End of Year	\$ <u>353,250</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (286,917)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	302,259
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	3,384
Prepaid Expenses	(819)
Interfund Due From	(120,447)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	94,945
Accrued Liabilities	365
Accrued Compensated Absences	3,608
Security Deposits	(210)
Accounts Payable- Other Governments	(67)
Deferred Revenue	(1,785)
Interfund Due To	<u>120,447</u>
Net Cash Provided by Operating Activities	\$ <u>114,763</u>

The Accompanying Notes are an Integral part of the Financial Statements

FERNDALE HOUSING COMMISSION
Combined Statement of Changes in Fund Balance
For the Year Ended December 31, 2003

Contributed Capital:

Balance at Beginning of Year	\$ 5,785,475
Reclassification, below	26,928
Depreciation Add Back	<u>(286,475)</u>
Balance at End of Year	\$ <u>5,525,928</u>

Undesignated Fund Balance:

Balance at Beginning of Year	\$ 1,026,496
Prior Period Adjustment:	
HUD changes in Prior Year Funding	(198)
Reclassification, above	(26,928)
Net Income (Loss) for the Year	(286,917)
Depreciation Add Back	<u>286,475</u>
Balance at End of Year	\$ <u>998,928</u>

The footnotes are an integral part of the financial statements.

FERNDALE HOUSING COMMISSION
Notes to Financial Statements
December 31, 2003

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Ferndale Housing Commission, Ferndale, Michigan, (Commission) was created by ordinance of the city of Ferndale. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 96 1, 2, 4	Low rent program	167 units
MI 28 V	Section 8 Vouchers	151 units
	New Construction	60 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Compensated absences are for unused vacation days, personal leave days, and accumulated compensation time, based on total accumulation of time at current rates of compensation. Financial Accounting Standards Board (FASB) # 43 establishes proper generally accepted accounting principles (GAAP) concerning such accruals. The following criteria must be met:

- 1) Employee's right to compensation is attributable to past performance.
- 2) The right to compensation is vested or accumulates.
- 3) It is probable that the compensation will be paid.
- 4) The amount is reasonably estimable.

The Commission accrued a percentage of the above based on an analysis of past retirements and current potential using the above criteria.

The estimated portion of the liability for vested leave benefits attributable to the Commission is recorded as an expenditure and liability in each of the respective programs.

Notes to Financial Statements- continued

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 265,965
Petty Cash	<u>100</u>
Total Cash	\$ 266,065
Investments reclassified as cash equivalents	<u>87,185</u>
Total Cash & cash equivalents	\$ <u>353,250</u>

Investments:

Certificates of Deposit	\$ 170,684
Savings Account	<u>87,185</u>
	\$ 257,869
Reclassified as Cash equivalents, above	<u>(87,185)</u>
Financial Statement Total	\$ <u>170,684</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Cash:					
Checking A/C's	\$ 265,965	\$	\$	\$ 265,965	\$ 265,965
Petty Cash	<u>100</u>			<u>100</u>	<u>100</u>
Total Cash	\$ <u>266,065</u>	\$	\$	\$ <u>266,065</u>	\$ <u>266,065</u>
Investments:					
C/D's	\$ 170,684	\$	\$	\$ 170,684	\$ 170,684
Savings Accounts	<u>87,185</u>			<u>87,185</u>	<u>87,185</u>
Total Invest	\$ <u>257,869</u>	\$	\$	\$ <u>257,869</u>	\$ <u>257,869</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Notes to Financial Statements- continued

Note 3: Accounts Receivable

Accounts Receivable consist of the following:

Accounts Receivable	\$	3,299
Allowance for Doubtful Accounts		(2,300)
Accrued Interest Receivable		<u>432</u>
	\$	<u>1,431</u>

Note 4: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 823,793	\$	\$	\$ 823,793
Buildings	5,684,153			5,684,153
Furniture & Equipment-Dwellings	38,212			38,212
Furniture & Equipment-Admin	172,572	15,040		187,612
Leasehold Improvements	<u>2,676,495</u>	<u>156,545</u>		<u>2,833,040</u>
	\$ 9,395,225	\$ 171,585	\$	\$ 9,566,810
Less Accumulated Depreciation	<u>3,043,147</u>	<u>302,259</u>		<u>3,345,406</u>
	<u>\$ 6,352,078</u>	<u>\$ (130,674)</u>	<u>\$</u>	<u>\$ 6,221,404</u>

Note 5: Accrued Liabilities

Accrued Liabilities consist of the following:

Accrued Wages & Benefits	\$ <u>21,011</u>
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Note 6: Pension Plan

The Ferndale Housing Commission contributes to a Simplified Employee Pension Plan, (SEPP). The Commission pays a percentage of all eligible employees wages to the fund. Employees are 100 % vested as soon as they are eligible. Eligibility requirements are as follows: full time employee, over 21 years of age, and have worked for the Commission for at least three of preceding five years. Information concerning the pension fund is contained in a separate audit report.

Notes to Financial Statements- continued

Note 7: HUD Guaranteed Debt and Contributed Capital.

HUD guaranteed debt has been reclassified to Contributed Capital for all years ending after September 30, 2003. The reclassification is a result of all HUD programs converting from a basis of accounting prescribed by HUD other than Generally Accepted Accounting Principles (GAAP), to GAAP.

The following represents the original Capital Contributions as a result of the above requirements:

HUD Held Notes	\$ 3,388,876
FFB Notes	1,603,708

In addition to the above debt entries, contributed capital consists of reserved and unreserved surplus, and cumulative HUD contributions.

Note 8: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 16,418,000
General Liability	1,000,000
Dishonesty Bond	1,000,000
Auto Insurance	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Note 9: Segment Information for Enterprise Funds.

The Commission maintains an enterprise fund; segment information for the year ended December 31, 2003, is as follows:

Operating Revenue	\$ 1,846,680
operating Income	985,000
Non Operating Revenue (Expenses)	
Extraordinary Maintenance	(4,900)
Casualty Losses	(5,305)
Depreciation Expense	(302,259)
Housing Assistance Payments	(959,453)
Net Profit (Loss)	(286,917)
Non Current Assets (net)	6,221,404
Total Assets	6,952,318
Retained Earnings	998,928

Notes to Financial Statements- continued

Note 10:Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 11:Combining Financial Data Schedules.

The totals in the combining Balance Sheet and combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

FERNDALE HOUSING COMMISSION
Schedule of Federal Financial Assistance
For the Year Ended December 31, 2003

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
<u>CFDA 14.850 Public and Indian Housing</u>	
C-3029 Operating Subsidies	\$ <u>228,982</u>
* <u>CFDA 14.855 Housing Assistance Program</u>	
C-3099V Section 8 Housing Choice Vouchers	\$ <u>580,069</u>
<u>CFDA 14.872 Capital Projects Program</u>	
C-3029 Capital Projects Funds	\$ <u>156,545</u>
* <u>CFDA 14.856 Lower Income Housing Assistance</u>	
C-3117 Section 8 New Construction	\$ <u>467,073</u>
	\$ <u>1,432,669</u>

*Connotes Major Program Category

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 16,418,000
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

FERNDALÉ HOUSING COMMISSION
Status of Prior Audit Findings
December 31, 2003

The prior audit of the Ferndale Housing Commission for the period ended December 31, 2002, did not contained any audit findings or questioned cost.

FERNDALE HOUSING COMMISSION
Report on Compliance Applicable to Each Major Program
and on Internal Control over Compliance in
Accordance with OMB Circular A-133
December 31, 2003

Compliance

I have audited the compliance of Ferndale Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2003. Ferndale Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Ferndale Housing Commission's management. My responsibility is to express an opinion on Ferndale Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ferndale Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Ferndale Housing Commission's compliance with those requirements.

In my opinion, Ferndale Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2003.

Internal Control over Compliance

The management of Ferndale Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Ferndale Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

June 25, 2004

FERNDALE HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
December 31, 2003

I have audited the financial statements of Ferndale Housing Commission, Ferndale, Michigan, as of and for the year ended December 31, 2003, and have issued my report thereon dated June 25, 2004. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Ferndale Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instance of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Ferndale Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

June 25, 2004

FERNDALE HOUSING COMMISSION
Schedule of Findings and Questioned Cost
December 31, 2003

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Housing Assistance Program- Vouch	X	
Lower Income Housing Assistance	X	
Capital Projects Funds		X

Opinions:

General Purpose Financial Statements-

Unqualified

Report on compliance for major programs-

Unqualified

Thresholds

Dollar limit used to determine type A & B programs- \$ 300,000

Auditee did qualify as a low risk under Section 530 of OMB circular A-133

2) Findings relating to the financial statements reported in accordance with Government Auditing Standards:

None

3) Findings and Questioned Costs relating to Federal Awards:

None